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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 18, Volume 8

September 20, 2013

Canada

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National Overview

Canadian Retail Gasoline Prices Drop 2 Cents per Litre from Last Week

For the week ending September 17, 2013, Canadian average retail gasoline prices decreased by 2 cents per litre from the previous week to $1.31 per litre. Since the beginning of the year to September 17, 2013, average national retail pump prices have increased by 0.3 cent per litre, compared to the same period in 2012, while crude oil prices (average Edmonton Par and Brent) rose by 3.5 cents per litre.

Retail pump prices have declined by more than 3 cents per litre from the last report two weeks ago and are 4 cents per litre lower than during the same period last year.

Diesel fuel prices decreased by 1 cent per litre to $1.28 per litre. Furnace oil prices declined by less than 2 cents per litre to $1.23 per litre from the previous week.

Recent Developments

- **Alberta Government Forecasted Revenues from Oil and Gas:** Alberta Energy is responsible for forecasting non-renewable resource revenue, freehold mineral tax and net profits of the Alberta Petroleum Marketing Commission. Alberta's non-renewable resource revenue for 2013/2014 is estimated to be $7.3 billion, of which 47% from bitumen royalties; 22% from conventional oil; 13% from natural gas; 16% from land sales; and 2% other. (Source: Alberta Energy, http://www.energy.alberta.ca/About_Us/Royalty.asp)
- **Fuel Use in Canada:** Canada uses more energy per capita than almost any other country in the world. One of the reasons for this is our reliance on the automobile. Canadians own about 19 million light-duty vehicles including cars, vans and light-duty trucks, and typically drive more than 300 billion kilometres per year. With close to one vehicle for every two Canadians, we have one of the highest ratios of car ownership in the world. To a degree, our energy consumption in the transportation sector can be explained by our climate, the vast size of the country and the locations of our population. But fuel is also wasted when we make uninformed vehicle purchasing decisions, practice inefficient driving behaviours and fail to properly maintain our vehicles. (Source: Office of Energy Efficiency, NRCan, http://oee.nrcan.gc.ca/transportation/idling/7192)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

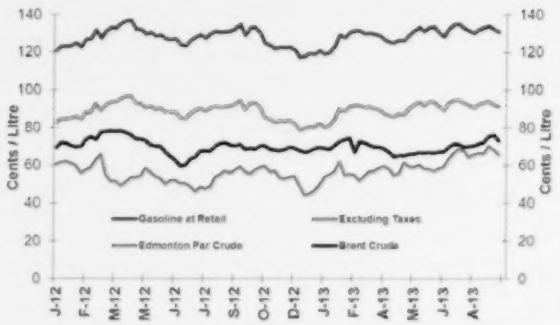
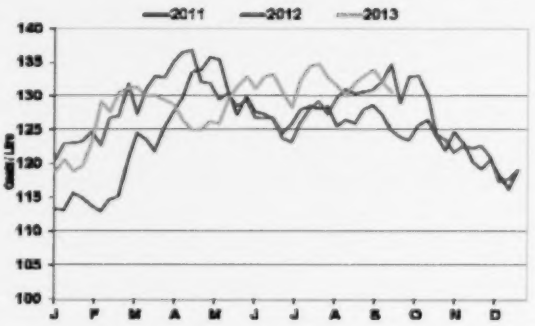


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2013-09-17	Previous Week	Last Year
Gasoline	130.6	-1.6	-4.0
Diesel	128.0	-0.8	+0.9
Furnace Oil	122.5	-1.5	+4.5

Source: NRCan

Natural Gas Prices for Vehicles

2013-09-17	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.4	78.8	81.7
Edmonton	115.1	75.9	78.7
Toronto	110.6	73.0	75.6

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

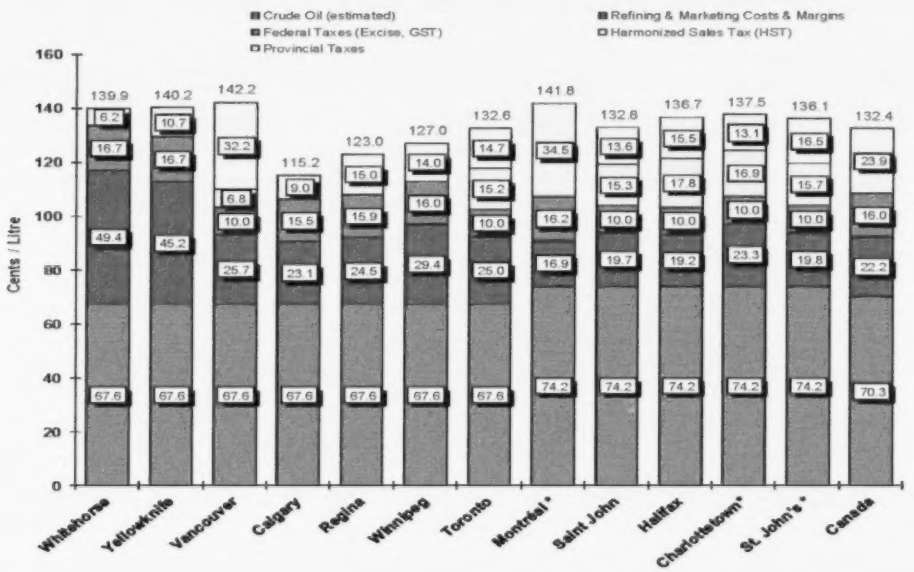
The average Canadian pump price in selected cities for the **four-week average** ending September 17, 2013, was $1.32 per litre. This represents an increase of less than 1 cent per litre compared to the same period in 2012.

The **four-week average** crude oil price increased by 1 cent per litre to 70 cents per litre compared to two weeks ago.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—decreased by 1 cent per litre when compared to the previous report and ranged from $1.15 per litre to $1.42 per litre. Prices in Eastern cities—Toronto to St. John's—increased by 1 cent per litre and ranged from $1.33 to $1.42 per litre.

At the national level, refining and marketing costs and margins declined by 1 cent per litre to 22 cents per litre. This represents a decrease of 7 cents per litre compared to last year at this time.

Figure 3: Regular Gasoline Pump Prices in Selected Cities Four-Week Average (August 27 to September 17, 2013)



Source: NRCan

** Regulated Markets*

What is Driving the Declining U.S. Gasoline Consumption?

For the first half of 2013, the Energy Information Administration (EIA) data show gasoline consumption lower than the comparable 2012 period by 50,000 barrels per day (bbl/d), or 0.6%, lower than during the comparable 2012 period. Economic growth, gasoline prices, and vehicle fleet efficiency are key determinants of gasoline use. So far in 2013, year-over-year economic growth and slightly lower retail gasoline prices, a combination that would generally lead to increased gasoline consumption, have been more than offset by the increased fuel efficiency of the light-duty vehicle fleet.

The gasoline consumption trend through the first half of 2013 was largely a continuation of the trend observed in 2012, when gasoline consumption also fell about 50,000 bbl/d compared to 2011. This average decline in consumption of about 50,000 bbl/d represents a more moderate pace of demand deterioration than in 2011, when significant price increases as a result of Libyan crude oil production outages were the main impetus behind an average 240,000-bbl/d decline in consumption compared with 2010. Since the beginning of 2011, gasoline consumption has declined year-over-year in 21 of the 30 months for which EIA has published monthly data.

Source: IEA, This Week in Petroleum, http://www.eia.gov/oog/info/twip/twip.asp

Wholesale Gasoline Prices

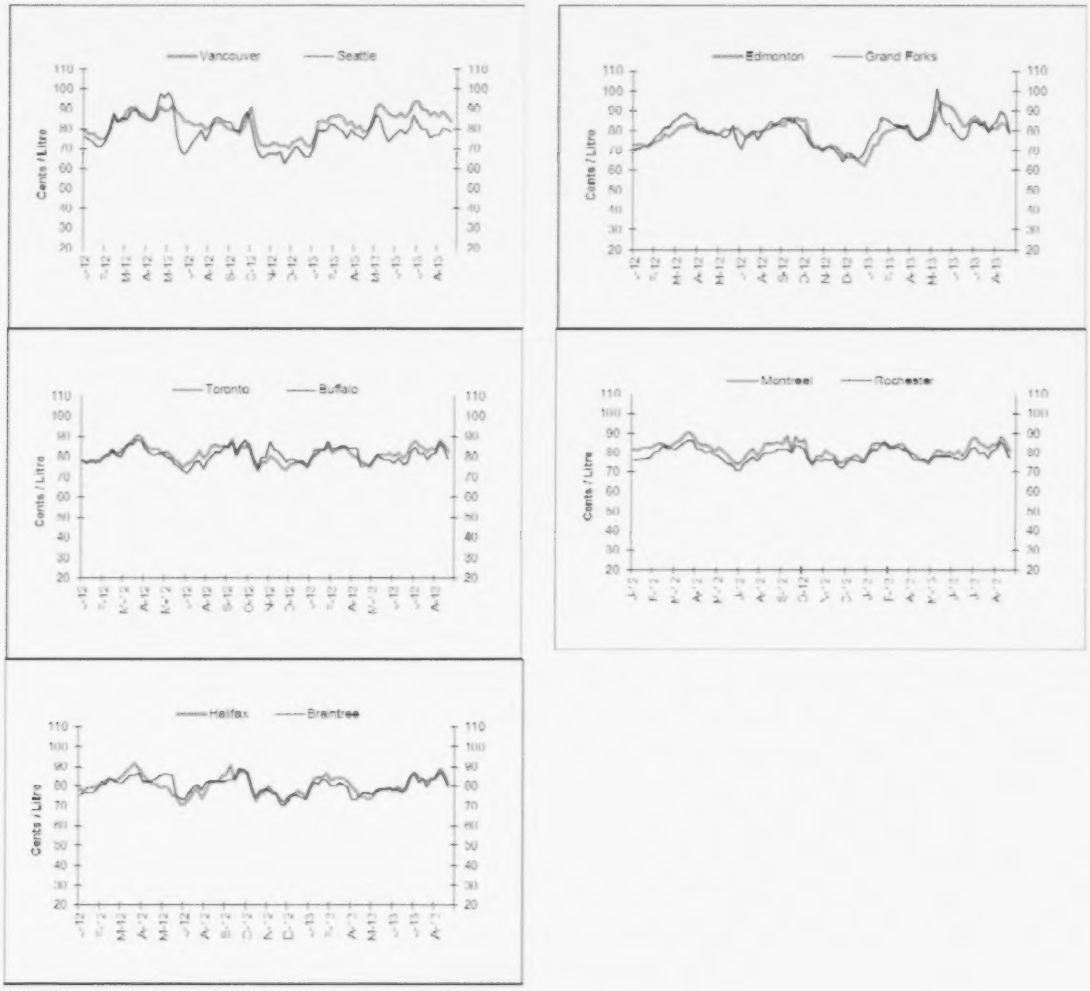
Wholesale gasoline prices declined in all selected Canadian and American centres for the week ending September 12, 2013.

Wholesale gasoline prices decreased from 1 to 7 cents per litre. Prices ended the period in the 77 to 84 cent-per-litre range.

In the Eastern markets of Canada and United States, wholesale gasoline prices ranged from 77 cents per litre to 83 cents per litre. All Eastern centres experienced price decreases ranging from 3 cents per litre to 6 cents per litre.

Wholesale gasoline prices in the Western centres decreased from 1 to 7 cents per litre, ending in the range of 79 to 84 cents per litre. Prices in Canadian and American centres decreased in the range of 1 to 10 cents per litre compared to two weeks ago.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending September 12, 2013
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

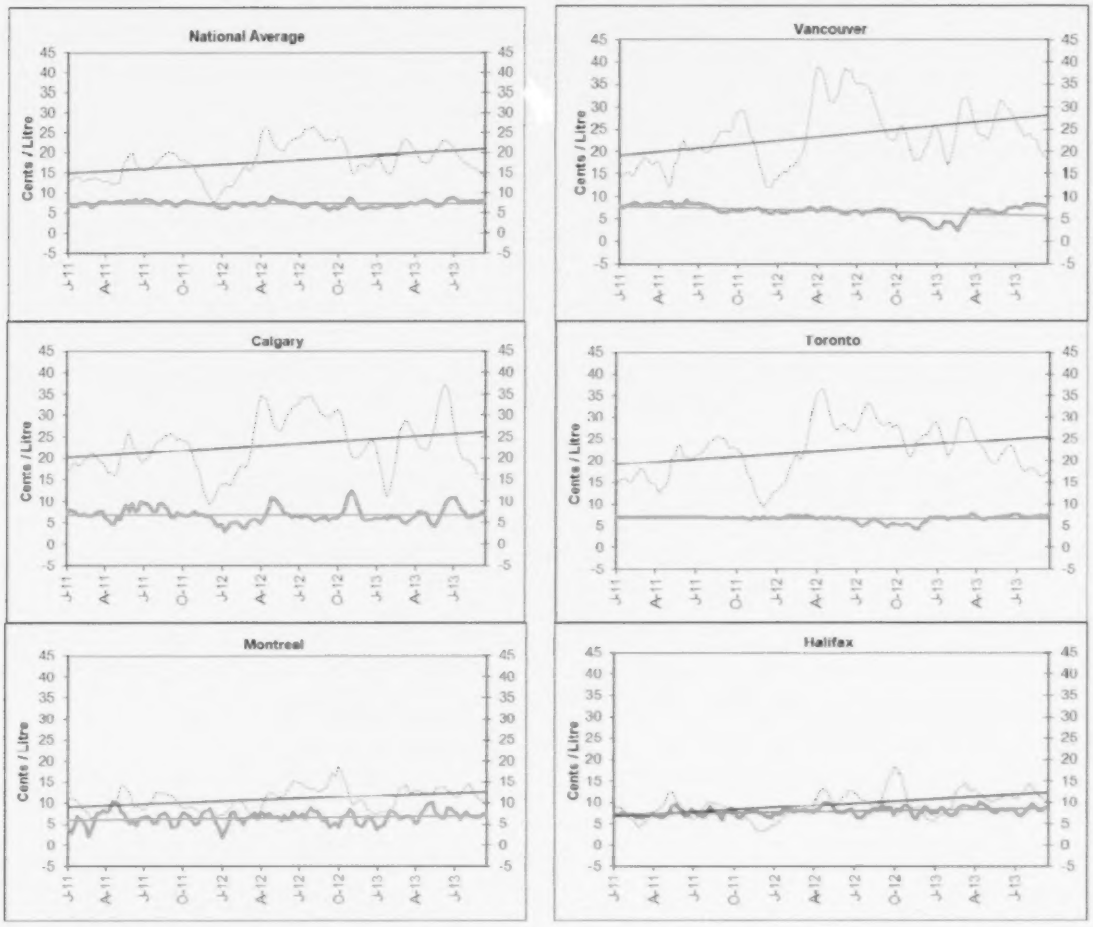
Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

Gasoline refining margins fluctuated downward since June, reflecting an adequate supply in the North American distribution system. Margins are hovering at 14 cents per litre at the national level for the week ending September 17, 2013, a decrease of 2 cents per litre compared to the same period last year.

Overall, marketing margins hovered at around 8 cents per litre—up by 2 cents per litre compared to the same time last year. For the five centres, marketing margins ranged from a low of 7 cents per litre to a high of 9 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending September 17, 2013
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Global Crude Oil Prices Drop on Syrian Diplomatic Resolution

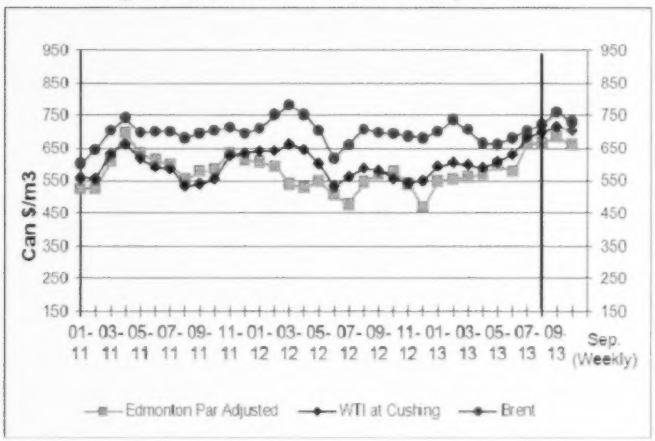
For the week ending **September 13, 2013**, prices for the three marker crudes averaged between $667/m^3$ and $730/m^3$, (US$102 to US$112 per barrel). Compared to the previous week, the price for Edmonton Par declined by $25/m^3$ (US$2 per barrel) while the WTI and Brent decreased by $12 and $31/m^3$ (US$0.41 and US$3 per barrel), respectively.

The WTI and Brent crude price differential averaged $25/m^3$ (US$4 per barrel) for the week under review. The possibility of supply disruption and rising demand buoyed global crude oil prices in the last four months. Brent crude oil prices moved upward in recent weeks because of increasing global refinery demand together with record levels of unexpected crude oil production outages, notably in Iraq and Libya.

However, for the week under review, global crude oil prices moved down as the Syrian crisis took another turn on the expectation that the conflict would be resolved through diplomatic channels.

U.S. crude oil inventories hovered at the top of their 5-year average range. This indicates more than sufficient supply helping to moderate the increase in prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-09-13		Change From:			
			Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	660.64	101.53	-24.70	-2.32	+72.53	+5.55
WTI	704.37	108.26	-11.67	-0.41	+106.32	+10.65
Brent	729.77	112.16	-31.27	-3.33	+20.05	-3.67

Source: NRCan

How Petroleum Products Move Across Canada

The Canadian downstream petroleum industry can be broken into three distinct regions: Western Canada, Ontario and Quebec/Atlantic Canada. The industry is often divided this way because of the differences in the feedstock available to the refiners in each of these areas. In Atlantic Canada and Quebec, refiners rely almost exclusively on foreign crude to meet their requirements. On the other hand, Western Canada is dependent on domestic production to satisfy its crude requirements. Ontario refiners have access to both foreign and domestically produced crude oils.

The availability of both crude oil and petroleum product imports in every region hinges on geographic constraints. Some regions are better suited than others to import products. Because of their connection via major waterways, Atlantic Canada and Quebec have good access to supplies from the northeastern United States and Europe. Ontario also has access to supplies from large U.S. markets and can also bring in products via Quebec.

Most of Western Canada is landlocked, and as such, has very limited access to supplies from other regions. The prairies supply a substantial volume of gasoline into the Vancouver market and refiners have the ability to balance supply and demand by importing gasoline into Vancouver from Washington State.